



Federal Accounting Standards Advisory Board

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**ELIMINATION OF CERTAIN DISCLOSURES RELATED TO TAX REVENUE  
TRANSACTIONS BY THE INTERNAL REVENUE SERVICE, CUSTOMS, AND OTHERS**

**Amending SFFAS 7  
*Accounting for Revenue and Other Financing Sources***

**Statement of Federal Financial Accounting Standards No. 20**

***September 2001***

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A02377

SP-02-13

## **THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**

*The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General in October 1990. It is responsible for promulgating accounting standards for the United States Government.*

*An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standard is published in an Exposure Draft for public comment. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. The Board publishes adopted standards in a Statement of Federal Financial Accounting Standards.*

*Additional background information is available from the FASAB:*

- *"Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board," Amended October 1, 1999.*
- *"Mission Statement: Federal Accounting Standards Advisory Board"*

*Federal Accounting Standards Advisory Board*

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**EXECUTIVE SUMMARY**

- I. This Statement amends the standard on Prior Period Adjustments contained in Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources* (SFFAS No. 7), which was issued in April 1996.
- II. Paragraph 76 of SFFAS No. 7, entitled Prior Period Adjustments, addresses accounting changes and errors that affect prior period financial statements. It does not permit reporting entities, when presenting prior period financial statements for comparative purposes, to restate prior period financial statements to show the effect of the accounting errors.
- III. The unforeseen result is that reporting entities that have material errors in their prior period financial statements are unable to present them for comparative purposes without creating both a dilemma for auditors and confusion for users. The dilemma for the auditors is that they would have to qualify their opinion on the prior period financial statements whether or not they had been restated. If prior period statements were presented that contained a material error, auditors would have to qualify their opinion. On the other hand, if prior period statements were presented and balances had been corrected for an error, auditors would still have to qualify their opinion because such restatement would not be in accordance with the existing standard. The confusion for the user derives from the difficulty inherent in comparing the financial statements for two or more periods when the effect of the error is not shown in the prior periods' financial statements.
- IV. To correct this situation, the amendment requires that when material errors are discovered in prior period financial statements, all statements presented must be restated to correct the error.
- V. The Board has retained the current requirement that prior period financial statements not be restated for changes in accounting principles, unless otherwise specified in the transition instructions section of a new FASAB

standard. The language addressing the requirements, however, has been revised to improve clarity and to require certain disclosures.

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## INTRODUCTION

1. Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources*, became effective for fiscal year 1998. It includes a section describing how reporting entities should handle prior period adjustments.
2. The Section on Prior Period Adjustments states:
  76. Prior period adjustments should be limited to corrections of errors and accounting changes with retroactive effect, including those occasioned by the adoption of new federal financial accounting standards, and should be recognized and measured under applicable standards. Adjustments should be recognized as a change in cumulative results of operations (rather than as an element of net results of operations for the period). Prior period financial statements should not be restated for prior period adjustments recognized in the current period.
3. When SFFAS No. 7 was issued, the Board believed that having reporting entities restate prior period financial statements for prior period adjustments would create an unnecessary burden at a time when FASAB was still establishing a basic framework of standards.
4. However, disallowing restatement of prior period financial statements has had the effect of preventing reporting entities from presenting comparative financial statements when the prior period financial statements contain a material error that is discovered in the current period.
5. The Board has amended the standard to require that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period.

6. The Board has chosen to retain the current methodology that prior period financial statements not be restated for changes in accounting principles, unless otherwise specified in the transition instructions section of a new FASAB standard. The language addressing the requirements, however, has been revised to improve clarity and to require certain disclosures.
7. The language in the standard has also been revised to distinguish between corrections of errors and changes in accounting principles. A change in accounting principle should be identified as such and no longer reported as a prior period adjustment.

**Effective Date**

8. This amendment would be effective for periods beginning after September 30, 2001, with earlier implementation encouraged.

**ACCOUNTING STANDARD**

9. Paragraph 76 of SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, Section Prior Period Adjustments, is superceded and replaced by Paragraphs 10 through 14 below.

**Corrections of Errors**

10. "Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared."<sup>1</sup> When errors are discovered after the issuance of financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:
- (a) If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the statement of changes in net position.
  - (b) If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the statement of changes in net position for the earliest period presented.
  - (c) The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed.

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<sup>1</sup> Accounting Principles Board Opinion No. 20, par. 13.



Financial statements of subsequent periods need not repeat the disclosures.

11. Prior period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated.

### Changes in Accounting Principles

12. A change in accounting principle is a change from one generally accepted accounting principle to another one that can be justified as preferable. For the purposes of this standard, changes in accounting principles also include those occasioned by the adoption of new federal financial accounting standards.
13. Unless otherwise specified in the transition instructions section of a new FASAB standard, for all changes in accounting principles that would have resulted in a change to prior period financial statements:
  - (a) The cumulative effect of the change on prior periods should be reported as a "change in accounting principle." The adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made.
  - (b) Prior period financial statements presented for comparative purposes should be presented as previously reported; and
  - (c) The nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period. Financial statements of subsequent periods need not repeat the disclosure.

The provisions of this statement need not be applied to immaterial items.

## APPENDIX A: BASIS FOR CONCLUSIONS

14. This appendix summarizes some of the considerations deemed significant by the Board in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others.
15. The Board received sixteen responses to the ED. All but one respondent were in support of the amendment. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondent's majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The respondent's comments are summarized below.

	Federal	Non-federal
Users, academics, others		2
Auditors	2	
Preparers and financial managers	12	

16. Seven respondents approved the amendment without further comment. Four approved the amendment but requested clarifying language, which has been incorporated into the standard. Two approved the amendment but would have preferred that the standard allow restatement for changes in accounting principles.
17. One respondent disapproved of the amendment because they believe the amendment will create additional confusion regarding the closing of prior period accounts and the subsequent issuance of financial statements.

### Corrections of Errors

18. When SFFAS No. 7 was issued, the Board believed that having reporting entities restate prior period financial statements for prior period adjustments would create an unnecessary burden at a time when FASAB was still establishing a basic framework of standards. Changes in the federal accounting environment in the ensuing years have lessened these concerns. With the government's increasing ability to produce accurate and sophisticated financial statements, the Board is more concerned with encouraging reporting entities to produce financial statements that are most useful to managers and other users.
19. Although comparative financial statements are not required by any of the accounting standards setting boards, it is generally held that "the presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports and brings out more clearly the nature and trends of current changes affecting the enterprise."<sup>2</sup>
20. Reporting entities also recognize that presenting comparative statements greatly enhances the overall usefulness of financial statements. Despite the advantages of providing comparative statements, however, at least one governmental entity has been constrained from presenting its prior year statements because they contain a material error.
21. The Board has deliberated on the effects of the existing standard precluding restatement to correct errors on presentation of comparative financial statements. Although it believes that the considerations in effect at the time the existing standard was issued were valid, it has concluded that potentially losing or delaying the benefit of comparative statements now outweighs these considerations.
22. The Board concluded that the standard for Prior Period Adjustments should be amended to specifically require that prior period financial statements presented for comparative purposes be restated to correct material errors, and that restatement should be limited to only material errors.

<sup>2</sup> Accounting Research Bulletin 43, Chapter 2A, paragraph 101.

**Changes in Accounting Principles**

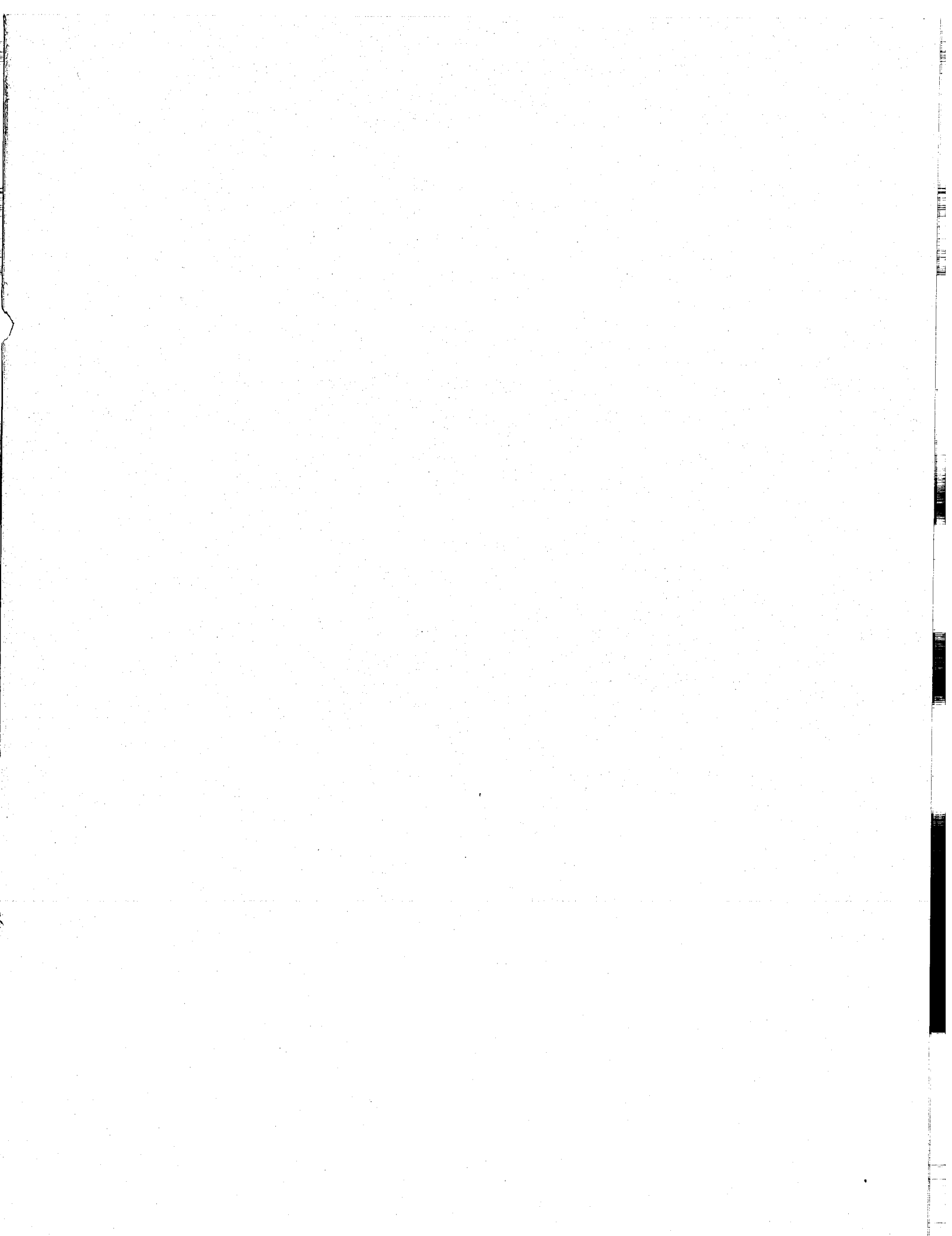
23. Although the Board has chosen to retain the current methodology for reporting changes in accounting principle, it has revised the language to improve clarity and to require certain disclosures. The Board may consider exceptions to this decision, if warranted, for accounting standards issued in the future. It may also further examine issues raised by respondents regarding changes in accounting principles.

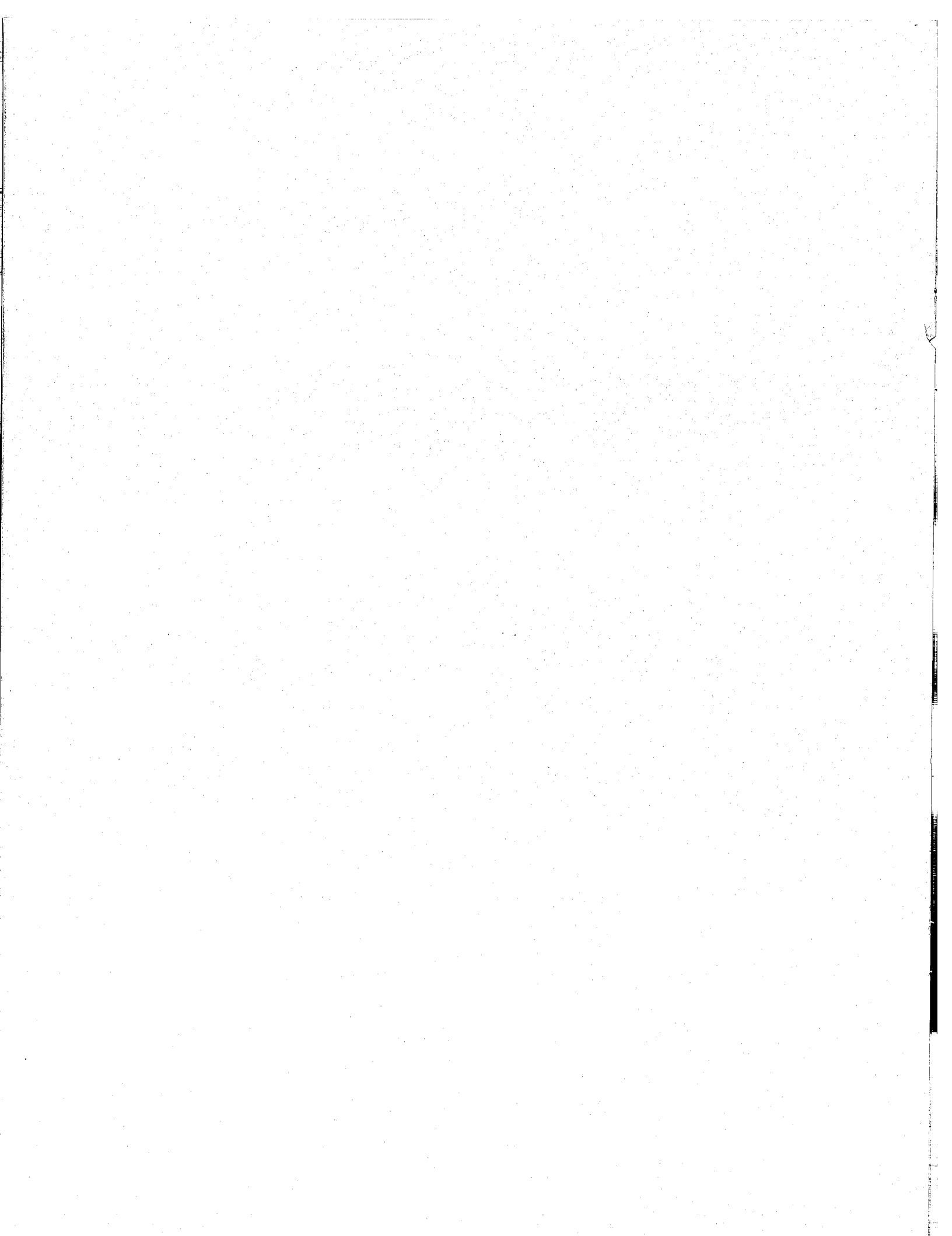
**Other Accounting Changes**

24. Although accounting estimates and changes in reporting entity are identified as accounting changes in other accounting literature, the Board did not address these issues because they require further study and were not addressed in paragraph 76 of SFFAS No. 7.

**Board Approval**

25. This statement was approved by unanimous vote of the Board.





## **FASAB Board Members**

David Mosso, Chairman

Barry B. Anderson

Philip T. Calder

John A. Farrell

Joseph L. Kull

James M. Patton

Robert N. Reid

Nelson E. Toye

Kenneth J. Winter

### *FASAB Staff*

Wendy M. Comes, Executive Director

### *Project Staff:*

Andrea Palmer

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***FASAB***

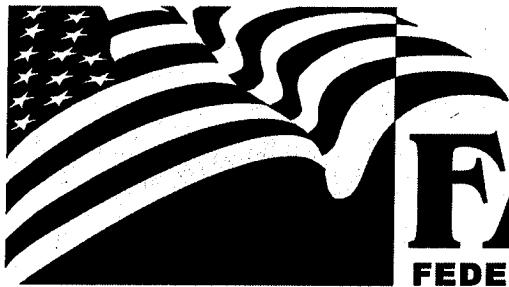
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# FASAB NEWS

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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## AAAPC Member Lane Concludes Four Years of Service

The Accounting and Auditing Policy Committee's original at-large member, Mr. Jay Lane, has completed his service. Mr. Lane was an original member of the Committee and was instrumental in establishing the original operating procedures as well as the first five Technical Releases. His contribution to AAPC has been tremendous. Mr. Lane served as an "at-large" member appointed by the FASAB Steering Committee. The Steering Committee is interested in considering both federal and non-federal candidates for this seat. Please contact Monica Valentine, at 202 512-7362 (valentinem@fasab.gov) to recommend candidates or offer your services.

## Highlights of the June 18-19, 2001 Board Meeting

### Board Welcomes New Member, John Farrell

The Board was joined in June by Mr. John A. Farrell, CPA, CGFM. Mr. Farrell retired from KPMG in November 1999 after serving as a partner in KPMG's Government Assurance Practice. He directed audits and audit-based advisory service engagements to federal, state, and local governments. He was appointed to a two-year term as a non-federal representative on the Board.

See Highlights, Page 2

## RSSI to be Eliminated

The Board reaffirmed its decision to eliminate the RSSI category. One member abstained because it was his first meeting; another member was absent. All the others agreed that the Board should resume work on exposure drafts to reclassify individual items of stewardship information as either "basic" or "required supplementary information." Point of contact, Robert Bramlett, 202-512-7355, bramlett@fasab.gov

## National Defense Property, Plant, & Equipment Exposure Draft Nears Completion

The Board continued its review of a draft exposure draft on National Defense Property, Plant, and Equipment (ND PP&E). Final revisions were proposed to technical provisions and the Board agreed to consider the next revision as a pre-ballot draft with final editorial changes expected by the end of July and balloting in early August. The Board concurred that it would be desirable to issue the exposure draft before its next meeting in late August. Point of contact: Rick Wascak, 202-512-7363, wascakr@fasab.gov

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## Board Decides to Undertake Consolidated Financial Report Project

The Board decided to undertake a project on analysis of the Consolidated Financial Report (CFR) of the US. The project will include a roundtable and/or survey to assess how the information in the current CFR is more or less useful to readers. It will also include an analysis of current Federal generally accepted accounting principles (GAAP) to determine if standards should be modified to more specifically address the CFR.

At the August Board meeting, representatives from the Financial Management Service of the Department of the Treasury will present to the Board sample reporting formats. They believe that these formats may more effectively communicate to users the results of consolidating agency level reports and linking that reported information to budgetary data and other meaningful financial condition indicators. Also at the August meeting, staff will present the project plan and sample questions for the roundtable and/or survey. Point of contact: Lucy Lomax, 202-512-7359, lomaxm@fasab.gov



## Board Tentatively Approves Amending SFFAS 7

The Board discussed the technical amendment to Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*. The amendment would allow flexibility in reporting changes in "receivables from the public related to exchange revenue" on the Statement of Financing. The Board noted that responses were continuing to arrive after the due date and agreed to review any comments received before July 2<sup>nd</sup> before voting on the final standard. The Board approved the amendment, barring any negative comments received by July 2<sup>nd</sup>. Point of contact: Richard Fontenrose, 202-512-73, fontenrosr@fasab.gov



## Board Gives Preliminary Approval to Draft Standard on Correcting Errors

The Board reviewed and discussed the draft final statement on *Reporting Corrections of Errors and Changes in Accounting Principles*, and the fourteen comments received from respondents. The Board made only editorial changes in the draft. Since respondents had less time to review the document because of mailing delays, the Board agreed to consider comment received up to July 2, 2001. Comments will be forwarded to the Board until that date; voting will take place shortly thereafter. Point of contact: Andrea Palmer, 202-512-7360, palmera@fasab.gov



### FASAB's Roster of Board and Staff Members

#### Original Board Members

##### Chair

Elmer B. Staats, 1991-1997

*Department of the Treasury*  
Gerald Murphy, 1991-1998

*Office of Management and Budget*  
Susan Gaffney, 1991

*General Accounting Office*  
Donald Chapin, 1991-1997

*Congressional Budget Office*  
James L. Blum, 1991-1998

*Defense & International Agencies*  
Avin Tucker, 1991-1997

##### Non-defense Agencies

William L. Kendig, 1991-1994

*Non-federal Representative*  
Martin Ives, 1991-1997

*Non-federal Representative*  
Cornelius E. Tierney, 1991-1997

#### Subsequent Board Members

##### Chair

David Mosso, 1997-present

*Department of the Treasury*  
Donald V. Hammond, 1998-1999

*Department of the Treasury*  
Robert Reid, 1999-present

*Office of Management and Budget*  
Edward J. Mazur, 1991-1993

*Office of Management and Budget*  
Harold L. Steinberg, 1993-1994

*Office of Management and Budget*  
Norwood Jackson, 1995-1999

*Office of Management and Budget*  
Joseph L. Kull, 2000-present

*General Accounting Office*  
Philip T. Calder, 1997-present

*Congressional Budget Office*  
Barry B. Anderson, 1999-present

*Defense & International Agencies*  
Nelson Toye, 1997-present

##### Non-defense Agencies

James E. Reid, 1994-1998

##### Non-defense Agencies

Kenneth J. Winter, 1999-present

*Non-federal Representative*  
Donald H. Chapin, 1997-present

##### Non-federal Representative

Linda J. Blessing, 1997-1999

##### Non-federal Representative

James M. Patton, 1999-present

#### Original Staff Members

##### Executive Director

Ronald S. Young, 1990-1996

##### Deputy Executive Director

Jimmie D. Brown, 1990-1993

Robert W. Bramlett, 1991-present

Wendy M. Comes, 1991-1996

Richard L. Fontenrose, 1991-present

M. Lucy Lomax, 1991-present

Richard C. Mayo, 1991-present

Frank Rexford, 1991-1993 (deceased)

Monica R. Valentine, 1991-present

Richard Wascak, 1991-present

Richard S. Tingley, 1991-2001

Marian Nicholson, 1991-present

Alice Keels, 1991-1993

Allison Powell, 1993-1997

#### Subsequent Staff Members

##### Executive Director

Wendy M. Comes, 1996-present

Andrea Palmer, 1997-present

Charles W. Jackson, 2001-present

## Disclaimer

NOTE: FASAB News is published by the staff of the Federal Accounting Standards Advisory Board. This newsletter, highlighting recent Board actions, is issued after Board meetings to provide the public with an understanding of issues that the Board is considering. When an article refers to a Board decision, it should be understood that Board decisions are tentative until FASAB issues a Statement of Federal Financial Accounting Concepts (SFFAC) or Statement of Federal Financial Accounting Standards (SFFAS).

Please direct newsletter editorial questions to Lucy Lomax, 202-512-7359, LomaxM@fasab.gov

Please direct FASAB and AAPC administrative questions to Charles Jackson, 202-512-7352, jacksoncw1@fasab.gov

## Meeting Attendance Security Reminder

If you wish to attend a FASAB or an AAPC meeting, please provide your name, organization, and phone number to Marian Nicholson, 202-512-7350, or email, nicholsonm@fasab.gov at least one day prior to the meeting. The General Accounting Office has increased its security procedures and your name must be provided to the security force before you can enter the building. Thank you.

## Announcements

- FASAB publishes *Technical Release 5: Implementation Guidance on Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software*. The technical release is effective immediately and is available at the AAPC Web site, [www.financenet.gov/financenet/fed/aapc.aapc.htm](http://www.financenet.gov/financenet/fed/aapc.aapc.htm), by selecting "Technical Releases" from the sidebar menu. Point of contact: Monica Valentine (202) 512-7362 [alentinem@fasab.gov](mailto:alentinem@fasab.gov)
- General Accounting Office (GAO) issues exposure draft of a proposed revision to *Government Auditing Standards (GAGAS)* titled *Government Auditing Standards: Independence (GAO/GAGAS-ED-4)*. The proposed revision would expand the definition of personal impairments, highlight the distinction between external and internal reporting, and acknowledge the ways that organizations can be free from organizational impairments to independence. The comment period ends July 30, 2001. A copy of the exposure draft can be obtained from GAO's Home Page ([www.gao.gov](http://www.gao.gov)). Additional copies of these proposed standards can be obtained from the U. S. General Accounting Office, Room 1100, 700 4th Street, NW, Washington, D.C. 20548, or by calling (202) 512-6000.
- FASAB has made available a limited number of printed copies of its December 31, 2000 edition of *Original Statements*. To request a copy, please contact the General Accounting Office Document Distribution Center at 202 512-6000. The Document Number is SP-01-17.

### FASAB Meeting Dates 2001

August 23 & 24  
October 25 & 26  
December 13 & 14

Location:  
General Accounting Office,  
441 G Street, NW, Room 6N30,  
Washington, DC 20548.

Agendas and meeting times will be posted to the FASAB web page one week prior to meetings.

### AAPC Meetings Dates 2001

July 12  
Sept 13  
Nov 8

Location  
General Accounting Office,  
441 G Street, NW, in Room 4N30,  
beginning at 1:30 PM.

Agendas and meeting times will be posted to the FASAB web page one week prior to meetings.

Point of contact:  
Monica R. Valentine, 202-512-7362,  
[ValentineM@fasab.gov](mailto:ValentineM@fasab.gov)



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